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CAN A TARIFF COMMISSION SUCCEED?

BY HARRISON S. SMALLEY.

THE Republican platform of 1904, in renewing the allegiance of the party to the policy of a protective tariff, declared that "the measure of protection should always at least equal the difference in the cost of production at home and abroad." Nothing was said to indicate that this difference in cost should be the absolute measure of protection. On the contrary, it was more than implied that duties might properly exceed that amount. But in 1908 far greater definiteness appeared in the pronouncement of the Republican party. It was then unequivocally affirmed that "in all tariff legislation the true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, together with a reasonable profit to American industries." This declaration was made in view of the popular conviction that monopolies in this country have been able to charge extortionate prices because they have been shielded from foreign competition by excessively high tariff duties. The Republican party, therefore, in effect announced its belief that, while the protective system should be maintained, it should not be allowed to remain an instrument through which the trusts could oppress the people. And so, in theory at least, it established the principle of relative costs of production as a prominent feature of its party doctrine.

But it is a matter of common knowledge that during the special session of 1909, Congress found itself with very fragmentary and inadequate knowledge as to relative costs of production, and was therefore compelled, in its revision of the tariff, to ignore to a large extent the principle which the Republican party had affirmed. Realizing this situation, the President and others were eager to secure the establishment of a

permanent Tariff Commission authorized to investigate conditions of cost at home and abroad. This proposal, however, met with such vigorous opposition that only a very grudging concession to the idea was embodied in the Act. The President was authorized to employ such persons as might be required to secure information to assist him in applying the maximum and minimum provisions, and to aid the officers of the Government in the administration of the customs laws.

In pursuance of this authority the President appointed as "such persons" Messrs. Henry C. Emery, James B. Reynolds and Alvin H. Sanders, and these gentlemen, under the chairmanship of the first named, have since been commonly referred to as the Tariff Board. They have undertaken an investigation of cost conditions and in that work have the benefit of a special appropriation made by Congress at its last session. It is possible that this semi-unrecognized Board may gradually develop into a permanent non-partisan Commission with extensive powers in regard to the tariff, or that it may be supplanted by such a Commission. Almost beyond doubt one or the other of these events will presently take place. For the Republican party has so thoroughly committed itself to the principle of relative costs that it cannot now refuse to give that principle a fair trial. Moreover, the President is apparently much in favor of the plan, and the progressive element in the party is clearly disposed to insist upon it.

Now if a serious attempt is actually to be made to adjust our tariff duties according to differences in cost as found by an expert non-partisan Commission, and if the attempt succeeds, two notable achievements will have been attained. In the first place, we will have a "scientific" tariff—a tariff based on and determined by a governing principle in place of the haphazard creations which have hitherto existed. And in the second place, the tariff will cease to furnish monopolies with a ready means of extortion. It is, therefore, evident that much will be gained if this new experiment succeeds. It is also obvious that if it fails the Republican party will be placed in a most embarrassing position, so far as its attitude on the tariff issue is concerned. These facts lend interest to speculations as to the probable measure of success which will reward such efforts as may be made. It would, of course, be foolish to prophesy as to the final outcome; but

it is possible, even at this early day, to foresee certain obstacles which must be encountered and which render the prospects of ultimate success very doubtful. As an understanding of these inevitable difficulties will enable one to follow more intelligently the progress of the experiment, it is the purpose of this article to consider those which are of the greatest importance.

1. The difficulty of securing accurate and sufficient information as to costs of production at home and abroad is an obstacle which has already been encountered and which will persistently continue to impede progress in the application of the Republican principle. For in the first place, the exact determination of costs is not an easy matter even in connection with a single plant, while it becomes a very complicated problem when all similar plants throughout the nation must be taken into account, because in various sections of a single country production takes place under different conditions and different costs therefore naturally result. And in the second place, producers are usually unwilling to disclose their costs, owing to the fear that such information may in some way be used against them. For some time two members of the Tariff Board were abroad, seeking data as to European costs of production, but if reports in the public press are to be believed they found their task anything but easy. It was hardly to be supposed that foreign producers would cheerfully supply abundant and reliable intelligence as to the conditions of expense under which they operate; and there is still less prospect that American producers will cordially welcome the investigations of a Tariff Commission or will assist such a Board in its work. Furthermore, it is extremely doubtful whether they could be compelled by legal process to disclose the required facts.

Of course something may happen to change the producers' attitude, though what developments could accomplish such a result cannot easily be imagined. Probably they will maintain their present position, and in that event about the only way in which even substantially adequate information can be secured will be the skilful employment of a species of "bluff." By announcing as the costs of production figures which are altogether too low, thereby threatening a revision of duties unfavorable to the producers, a Commission might drive them to open their books and reveal the desired data. It was, in fact, some such method which wrested from German producers the facts contained in the

celebrated report submitted by the German Government during the special session of 1909. But, aside from its undignified character, such a method would lead to attacks upon the Commission and apparently well-founded criticisms of its competence which would weaken its prestige and imperil the success of the entire plan. On the whole, then, the difficulty of acquiring the knowledge essential to the application of the Republican principle seems very great.

2. In the second place, if the tariff system were conducted in accordance with Republican doctrine, it would be necessary to alter the duties whenever a change occurred in the costs of production either at home or abroad, and as such changes occur frequently this would mean constant modifications of the tariff. It cannot be doubted that the chronic state of uncertainty which would consequently exist with respect to the tariff would have a depressing effect upon business enterprise. True, American producers would have the satisfaction of knowing that the tariff system was avowedly protective, and that all modifications of the duties would be designed to leave an adequate measure of protection to American industries, but that fact would not altogether remove their fears. For there would always be the possibility that the Commission might err, that it might, on the basis of insufficient or erroneous information, reduce certain duties below the protective point. There would also be the possibility that when a change occurred in cost conditions which would call for an increase in duties the readjustment might not be promptly made. It might be several months before the producers could discover the facts, present them to the Commission, and satisfy that Board as to their truth. Meanwhile, home industry would be suffering because of inadequate protection. In effect, it is to be feared that a nicely adjusted system of duties designed to be exactly equal to the differences in costs of production would keep American producers in a constant state of anxiety and suspense which would to some extent impede the progress of business.

3. In carrying out the policy of relative costs it would be necessary to establish a special set of schedules for each foreign country. Duties could not be the same against all, but would have to be adjusted for each nation according to differences in costs as between it and the United States. Unless this were

done, the chief object of the Republican principle, which is to protect Americans against monopolistic extortion, could not be attained. This fact may perhaps be most clearly brought out by means of a hypothetical illustration. Suppose that, with respect to a certain article, the American cost of production, including reasonable profits, is \$1.25, while country A can market such an article here at \$1, country B at \$1.10, country C at \$1.15, and so on. Were the duty put at a uniform level of twenty-five cents, no foreigner could get into the American market for less than American producers could profitably sell, so that the principle of protection would be maintained. Moreover, it might seem at first glance that even if domestic producers combined and formed a monopoly they could not raise the price above \$1.25, for that would invite competition from country A. But this would not necessarily be true. American producers might combine with the producers in country A and by agreement raise the price to \$1.30 or even \$1.34, which could be done without provoking B's competition. And even without such an arrangement, if A could not fully supply the American demand, our domestic trust would enjoy a considerable measure of liberty in fixing prices and could raise them above \$1.25. To avoid these difficulties, therefore, a duty of twenty-five cents would have to be levied against articles originating in A, a duty of fifteen cents against articles originating in B, a duty of ten cents against those originating in C, and so on.

But a tariff system embracing separate sets of schedules for all the nations of the world would be so complicated as to be very difficult to administer. Moreover, it would inevitably lead to dissatisfaction on the part of foreign Governments and would arouse from them constant complaints of unfair discrimination by the United States. It would be difficult for us to convince country A that we were not giving country B an undue advantage through certain adjustments of tariff duties, while B might complain that C was enjoying certain unfair preferences, and so on, through the entire list of foreign countries.

4. The transportation problem imposes another difficulty of a very serious character. A duty which would bring domestic and foreign producers together in New York on an equal footing would not be likely to produce the same happy result in an interior city. Let us again bring out the point by means of a supposititious

case. Suppose that an American trust controlling plants in the various sections of the country could profitably sell its product in New York at \$1.25 and in Omaha at the same price. Suppose also that English producers could deliver goods in New York at \$1. A duty of twenty-five cents would place the rival producers on the same footing in New York City. But suppose further that the freight rate to Omaha is ten cents. Then, whereas the American trust could sell in that city at \$1.25, English goods could be marketed there at no less than \$1.35. The trust, therefore, could raise its price to \$1.34 without incurring serious danger of English competition. On the other hand, if the duty were put at fifteen cents, the two nations would stand on the same basis at Omaha, but the English producers could undersell the American in New York. This simple case suggests a situation which would involve in almost hopeless complications a tariff system based on the principle of relative costs. The United States is a country of magnificent distances in which freight rates will always be an important element in the expense of marketing goods. Hence duties based on the costs which prevail in one place would produce discontent in other localities. With any adjustment of the tariff there would probably be complaints from consumers in certain districts, or from producers in other districts, or from both. That the system could be made generally satisfactory in so large a country as ours seems extremely doubtful.

5. A final obstacle, or rather set of obstacles, which the Republican principle of relative costs must meet, is the opposition which it is sure to provoke. This opposition will come from many different sources, but chiefly from the following three:

(a) All persons who on principle believe in free trade will naturally oppose the permanent establishment of the Republican plan, for it involves no concessions to free-trade doctrine. It is staunchly, though moderately, protectionist in nature, and therefore will be swept away if ever free-trade sentiment gains the ascendancy in this country.

(b) Politicians will also naturally oppose the principle of relative costs. Of course they will not manifest open and conspicuous hostility to it, so long as there is a strong sentiment in its favor throughout their party, but in their secret hearts they will detest it, and they will therefore resort to such subtle measures as they

can devise to prevent its application. For to apply the Republican principle would be to take the "politics" out of the tariff. It would prevent tariff amendments and revisions designed to secure purely political ends. It would make it impossible for politicians to use the tariff, as they have in the past, for log-rolling purposes, or to strengthen their personal support through duties agreeable to their constituents, or to strengthen their party by winning the favor of certain districts or certain classes of people through tariff adjustments ostensibly in the interests of such districts or classes. Solicitous care for the "husbandman," as shown in meaningless duties on various kinds of agricultural products, could no longer be manifested. Wavering elements in the party could not be clutched and firmly held through tariff concessions, as has been done in the past. In brief, the innumerable political uses of the tariff would come to an end.

In view of this fact, it is not likely that the party politicians in Congress will ever permit a full and true application of the principle. They will be exceedingly loath to leave the determination of duties to an expert non-partisan Commission. They will, indeed, be strongly inclined to insist on saying the final word themselves. But if Congress takes the matter into its own hands and substitutes its own judgment for that of the Commission, political forces will again be found at work, the tariff will again become the victim of political bargains and of party needs, and the principle of relative costs will vanish.

(c) The great protected interests can also be counted upon to offer bitter and strenuous and persistent opposition. Indeed, hostility on their part has already appeared. They have been accustomed during the last forty-nine years to a system of very high duties and will not willingly relinquish the advantages of such a system. They will resent the inquisitorial features of the new plan as an invasion of that secrecy which they deem themselves entitled to maintain with reference to their own affairs. They will find much to oppose in the new plan because of the transportation difficulties above considered. They will also stand in fear of a system which involves continual and often sudden changes in tariff duties. And finally, all the incentives still exist which have for many years led the protected interests to employ all manner of means, legitimate and illegitimate, to secure high duties. For these reasons such interests will resist the attempted

application of the Republican principle, and their influence at Washington will doubtless prove to be a factor of much practical consequence.

It will not be surprising if they insist that they should be allowed a small margin of safety in the shape of duties somewhat above the differences in costs. They will call attention to the fact that if anything occurs to increase their costs, or to lower the costs of their rivals abroad, an increase in duties can be secured only after an investigation by the Commission, during the course of which they will not have sufficient protection. They will also suggest the possibility of injury resulting from any ill-advised reductions in duties by the Commission. In view of these considerations, they will ask for a margin of safety. But if such a margin were granted at all, it would not be long before protestations would be heard that the margin was not large enough, and if different margins were allowed on different commodities complaints of discrimination would be sure to arise. Under such circumstances, there is at least a chance that one after another the margins would be increased, until the whole principle of relative costs would be lost to view.

There is one other ground on which opposition to the Republican principle would develop. The platform of 1908 declared that "the true principle of protection is best maintained by the imposition of such duties as will equal the difference between the cost of production at home and abroad, *together with a reasonable profit to American industries.*" Within limits, then, it remains with those who adjust the duties according to this principle to decide what is a "reasonable profit to American industries." They can determine how large a return an American trust should earn on its invested capital. By one adjustment of duties they can confine the profits to five per cent.; by others they can cause them to soar to ten or fifteen or twenty per cent. They can even affect to some extent the range of profits in non-monopolized lines of business. Thus the profitability of all protected industries would be influenced and in some cases practically determined by the Federal Government.

Needless to say, this feature of the plan would arouse the opposition of all who disbelieve in governmental interference in industry. It would also provoke the antagonism of the great protected interests, which would find their profits determined

for them by governmental officers at Washington. Cries of unfair discrimination between producers in different lines would be raised and persistent efforts would be made to have the system abolished. Whether it could stand up under the assaults which would be made upon it is a matter as to which there is very grave doubt.

Thus it appears that there are numerous reasons which justify the fear that the principle of relative costs may fail. Yet, as was said at the outset, it would be unsafe to prophesy such an outcome, for new developments may appear which cannot now be foreseen, but which will increase its chance of success. Those who are interested in the prosperity of the Republican party will naturally wish to see it triumph over all obstacles, but whether from the point of view of the public at large its final success or its ultimate failure is the thing to be desired is a question upon which there cannot be unanimity of judgment. For one's view on that question must be determined by his convictions as to the general problem of protection and free trade. The success of the principle would unquestionably intrench protection more firmly in the policy of the nation, while its collapse would surely give a powerful impulse to the advance of free-trade ideas.

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